

## **WAIS SCHEDULE OF EXCEPTIONS**

This disclosure of exceptions is made and given pursuant to Section 2 of the Agreement and Plan of Reorganization dated as of April 24, 1995 (the "Agreement"), by and among America Online, Inc., AOL Acquisition Corp., and Wide Area Information Servers, Inc. ("WAIS"). Unless the context otherwise requires, all capitalized terms are used herein as defined in the Agreement. The numbers below correspond to the section numbers of representations and warranties in the Agreement that are most directly modified and qualified by the disclosures, but all disclosures are intended to modify any and all of WAIS's representations and warranties. Except as denoted by an asterisk (\*) (which represents agreements or contracts that were either recently entered into and/or fell below the materiality threshold during America Online's due diligence), contracts or agreements referenced herein have previously been provided to America Online and its legal counsel.

### **Section 2.1: Organization and Good Standing.**

WAIS is qualified to do business as a foreign corporation in Maryland.

Section 2.3: Capitalization.

WAIS Shareholders

Brewster Kahle  
WS Investment Company 95A  
Allen L. Morgan

---

Total

Number of Shares Held

7,500,000 Shares of Common Stock  
22,500 Shares of Common Stock  
2,500 Shares of Common Stock

---

7,525,000 Shares of Common Stock

WAIS Optionholders

Dan Aronson  
Dan Aronson  
Dia Cheney  
John Duhring  
John Duhring  
Bill Dunn  
Bruce Gilliat  
Cyndy Miller-Riley  
Harry Morris  
Kevin Oliveau  
Will Tuthill  
Larry Steinberg  
Mary McCall  
Claude Devarenne  
Marion D. Esanu  
Norman Brodesser  
Kevin Garrett  
Miekle Syme-Hall  
Nicholas M. Scharf  
Tom Ajayebi

---

Total

Number of Options for Common Stock

36,000  
54,000  
7,500  
300,000  
150,000  
75,000  
300,000  
30,000  
396,000  
90,000  
15,000  
30,000  
22,500  
15,000  
15,000  
12,000  
7,500  
30,000  
300,000  
22,500

---

1,908,000

The Company has no Preferred Stock authorized or outstanding.

## Section 2.5: Existing Agreements.

Section 5.2 ("Termination") of the Software Development and License Agreement between WAIS and America Online, Inc., dated December 19, 1994, provides that either party to the Agreement may terminate the contract immediately upon any "change in control" of the other party, which includes the transactions contemplated hereby.

Section 8(c) of the Internet Distribution Agreement between Dow Jones & Company, Inc. and WAIS, dated January 25, 1994, provides that in the event of a change in voting control of WAIS, WAIS shall notify Dow Jones within 10 days of the effectiveness of such change in control. If, in the reasonable discretion of Dow Jones, the party to whom control of WAIS has been transferred is either a competitor of WAIS or is of unsound financial condition, Dow Jones may, within 30 days of its receipt of such notice, terminate this contract upon at least 60 days' prior notice.

Section 6(b) of the Agreement between WAIS and Ensemble Information Systems, Inc., dated November 23, 1994, provides in the event either party to the contract is acquired by a third party, the other party may terminate the agreement within 30 days following the closing of such acquisition.

Section 10.3(e) of the Agreement between WAIS and Fujitsu Limited, dated August 26, 1994, provides that either party to the Agreement may terminate the contract upon the occurrence of any transaction in which 50% or more of the voting power of the other party is transferred.

Section 17.6 of the Development and Distribution Agreement between WAIS and Fulcrum Technologies, Inc., dated June 18, 1994, provides that no party to the agreement may assign the contract without the prior written consent of the other party. An acquisition of either party by a third party is deemed to result in an assignment of the contract to the acquiror.

Section 11 of the Office Building Lease between WAIS and the Washington Real Estate Investment Trust, dated November 29, 1994, provides that WAIS shall not issue, sell, give, assign, hypothecate, deliver or transfer any of its shares of stock without the express written consent of the Lessor (the Washington Real Estate Investment Trust).

In each of the WAIS's contracts with agencies of the United States Government (the "Government"), or a prime contractor to the Government, WAIS has not requested that the opposing party novate the contract to account for the transactions contemplated hereby. WAIS has been advised that such novation is necessary, and that with respect to any of the contracts listed below, the opposing contracting party may terminate the contract for default, which may require that WAIS refund amounts paid for services not yet rendered and/or pay a penalty for not obtaining a novation prior to the acquisition contemplated hereby.

#### Section 2.6: Litigation.

WAIS is currently seeking to recover a \$11,750 deposit given to Optimum Capital in conjunction with a proposed lease line for WAIS. WAIS has not filed suit against Optimum Capital, but has not eliminated the possibility of litigation.

#### Section 2.7: WAIS Financial Statements.

The financial statements prepared by WAIS during calendar years 1993 and 1994 were done primarily on a cash basis for income tax and internal management purposes; this treatment applies to all of the financial statements delivered to AOL for calendar year 1993, and the quarterly financial statements through June 30, 1994.

WAIS began using accrual accounting methods as of July 1, 1994, but WAIS's accounting practices have not been audited. Accounting practices which may not accord with GAAP are:

As of December 31, 1994, the accounting for WAIS's standard one-year service & maintenance contracts includes approximately \$25,000 of revenue which was recognized as of the date the contract was signed, but has yet to be earned. At the end of FY1995, WAIS plans to adjust FY1995 revenue to defer unearned revenue until services have been performed.

WAIS recognizes revenue for non-refundable fees invoiced for production services customers as of the customer commitment date, as evidenced by a signed contract or letter to proceed.

Income tax liabilities are accrued using a composite rate of 44% times pretax income. This composite rate calculation has not been reviewed for GAAP compliance and has not been reviewed thoroughly to account for future tax returns.

WAIS uses the "specific identification method" to provide for its bad debts and returns.

WAIS makes no provision for warranty expenses.

#### Section 2.8: Taxes.

WAIS has provided AOL copies of state and federal income tax returns, but has not provided copies of its 1099 forms, payroll tax returns, personal property tax returns and sales tax returns.

Accruals for taxes reflect only an estimate of taxes which are due based on current information and include no provision for potential tax deficiencies or penalties thereon which could

be assessed after a tax audit by the applicable government agency. No tax audits have been done and none are scheduled.

No foreign tax returns have been filed. WAIS has made sales of its Servers to Companies in \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_ totalling approximately \$ \_\_\_\_\_.

Section 2.9: Title to Properties.

WAIS has not done a review or inventory of the furniture, equipment and software capitalized on the WAIS Balance Sheet to adjust for possible losses of capitalized items or to reflect unusable furniture, equipment or software, if any.

WAIS has not been notified of, and is not otherwise aware of, any violations of any zoning, building, safety or environmental ordinance, and has not done a review of local ordinances to insure compliance.

Section 2.10: Absence of Certain Changes.

(d) Material Obligations.

Since the Balance Sheet Date, WAIS has entered into a lease for its current San Francisco facility. The term of the lease is two and one-half years at a monthly rent of \$11,000. In conjunction with the relocation to the new facility, WAIS has incurred expenses (paid or accrued) of approximately \_\_\_\_\_ together with deposits of \_\_\_\_\_.

Since the Balance Sheet Date, WAIS has made equipment and other purchases from Sun Microsystems of approximately \$ \_\_\_\_\_ and has incurred legal fees in conjunction with this transaction in excess of \$45,000.

WAIS has an Internet Distribution Agreement with Dow Jones & Company, Inc., pursuant to which WAIS provides services to develop an Electronic Publishing System. Dow Jones has the contractual right to terminate the contract and demand repayment of approximately \$100,000 paid to WAIS during the course of the contract period.

Section 2.11: Agreements and Commitments.

(a) Material Contractual Commitments.

Agreement with Ensemble Information Systems, Inc., dated November 23, 1994.

(b) Site Licenses and Delivery of Source Code.

Agreement with Fujitsu Limited, dated August 26, 1994.

Development Agreement with Intel, dated August 15, 1994.  
Development and Distribution Agreement with Fulcrum Technologies, Inc., dated June 28, 1994.

Letter Agreement with ConQuest Software, dated May 9, 1994.  
License Agreement with Encyclopaedia Britannica, dated January 20, 1995.  
\*License Agreement with the Santa Cruz Operation, dated March 31, 1995.  
License Agreement with Perot Systems, dated July 7, 1992.  
License Agreement with Idaho National Labs/EG&G, dated March 3, 1994.  
License Agreement with Rice University, dated February 8, 1993.  
License Agreement with Mitre, dated August 8, 1993.  
License Agreement with Boeing, dated August 30, 1993.  
License Agreement with Maryland Procurement Office, dated August 8, 1994.  
\*License Agreement with Datalytics, dated December 15, 1994.  
License Agreement with PCWARE Procurement Office, dated June 17, 1994.  
License Agreement with DTIC, dated October 26, 1993.  
License Agreement with America Online, Inc., dated December 21, 1994.  
License Agreement with Westlaw Publishing Corporation, dated November 17, 1993.  
License Agreement with Library of Congress, dated July 3, 1993.  
\*License Agreement with Pandora, dated 1993.

(c) Agreements by WAIS to sell rights with respect to WAIS Intellectual property.

Agreement with Fujitsu Limited, dated August 26, 1994.  
Development Agreement with Intel, dated August 15, 1994.  
Development and Distribution Agreement with Fulcrum Technologies, Inc., dated June 28, 1994.  
Letter Agreement with ConQuest Software, dated May 9, 1994.  
License Agreement with Encyclopaedia Britannica, dated January 20, 1995.  
License Agreement with the Santa Cruz Operation, dated March 31, 1995.

In addition, a portion of WAIS source code is given to every buyer of a WAIS Server and each party with whom WAIS jointly does production services.

(e) WAIS has granted value-added marketer distribution rights for WAIS software products to the following companies (which list includes active, non-lapsed contracts only):

Agreement with Fujitsu Limited, dated August 26, 1994.  
Development Agreement with Intel, dated August 15, 1994.  
Development and Distribution Agreement with Fulcrum Technologies, Inc., dated June 28, 1994.  
Letter Agreement with ConQuest Software, dated May 9, 1994.  
License Agreement with Encyclopaedia Britannica, dated January 20, 1995.  
\*License Agreement with the Santa Cruz Operation, dated March 31, 1995.

- \*Value Added Reseller Agreement (oral) with Net + Effects.
- \*Value Added Reseller Agreement (oral) with Market Trac.
- \*Value Added Reseller Agreement (oral) with Novx.

(h) WAIS has arrangements with the following companies whereby the company will share revenues with WAIS for Electronic Publishing Systems developed jointly:

Dow Jones

- \*The Sports Network (oral agreement - pending contract)

---

(i) Indebtedness for amounts exceeding \$10,000.

WAIS is currently in negotiations for a line of credit agreement with Cupertino National Bank for up to \$325,000 against approved accounts receivable as security plus previously or to be purchased equipment.

(j) Contracts limiting WAIS freedom to compete:

Pursuant to its agreement with WAIS referenced above, Fujitsu has exclusive redistribution rights to sell WAIS software products in Japan until August 26, 1995.

#### Section 2.12: Intellectual Property.

WAIS has executed several contracts with various agencies of the United States Government (the "Government"), pursuant to which it has delivered copies of its source code to such agencies. WAIS has neither contractually nor by label or other marking attached to such software the restrictive rights legend necessary to limit the rights of the Government to such software. As extensively discussed with representatives of AOL, including counsel for AOL, this failure to attach a restrictive rights legend to the software delivered to the Government may have given the Government and all of its agencies unlimited rights to use and distribute WAIS's source code. These possible unlimited rights include, but are not limited to, the right to distribute WAIS source code to other government contractors, who in turn may further distribute WAIS's source code to third parties. In addition, if WAIS is deemed to have previously granted the Government unlimited rights to its source code, WAIS may be liable for prior Government payments to WAIS for copies of WAIS's source code to which the Government and its various agencies already possessed unrestricted rights, and WAIS may in the future be prohibited from charging the Government for such software. Finally, WAIS's failure to properly label the software it has released to the Government may limit the extent to which WAIS or AOL would be able to maintain a trade secret action against third parties or recover damages from a third party for violating WAIS's trade secrets.

On August 18, 1993, WAIS received a letter from the law firm of Allen, Dyer, Doppelt, Franjola & Milbrath ("Allen"), which represents the Psychological Corporation of San Antonio, Texas, a wholly owned subsidiary of Harcourt Brace & Jovanovich, contesting WAIS's use of the name "WAIS". WAIS's prior law firm, Hopkins & Carley of San Jose, California, wrote a letter rejecting all such claims in response to Allen's letter in a letter dated September 7, 1993. No further communication from Allen or the Psychological Corporation was received.

WAIS has no patents or patent applications pending.

WAIS has not received any notice from any third party, and is not otherwise aware, that WAIS's business infringes any third party patent rights, but, as to patents, the non-infringement representation and warranty in the Agreement is limited hereby.

Mr. Kahle was previously an employee of Thinking Machines. While at Thinking Machines, he led the effort to form a consortium of companies (which at Thinking Machines was informally called by the project name "WAIS"; the project name was differently labelled at the other consortium members) to implement the concept of natural language, recursive searches of databases on massively parallel connection machines. The relevant database search and publishing protocols developed by the Thinking Machines personnel were placed into the public domain by Thinking Machines, and are freely available on the Internet. Other than certain immaterial file formats, WAIS's implementation of the public domain protocols was written and independently developed by WAIS. The WAIS consortium, which was never a formal entity, was disbanded by its members in 19\_\_\_. WAIS believes that no members of the consortium have any rights to any of WAIS's current Intellectual Property Rights (other than as such third party may have equivalent rights to use public domain software) in any manner that would have a material adverse effect on WAIS.

#### Section 2.13: Compliance with Laws.

WAIS is currently reviewing the requirements of laws, ordinances and regulations regarding such programs as OSHA safety regulations, Drug Free Compliance Programs, Fire Regulations, etc., but has no such compliance programs in place.

#### Section 2.15: Employees.

##### 2.15.1 Termination at will.

Edy Henderson, Vice President of Engineering, has a 90-day written notice requirement in her employment agreement regarding termination without cause. In addition, if Ms. Henderson is terminated without cause, for purposes of Ms. Henderson's stock option vesting, she will be treated as if she were terminated on the date six (6) months following the actual date of termination.



John Undercoffler, an early consultant to and program developer for WAIS, has not signed a consulting or other agreement with WAIS limiting his rights to the intellectual property he created while a consultant with WAIS or obligating him not to disclose confidential information of WAIS.

2.15.3. WAIS has the following "Employee Plans" in place:

1994 Stock Option Plan

Medical Health Plan, premiums paid by WAIS

Vacation Policy (unwritten): 3 weeks of paid vacation per year (does not include sick time off)

2.15.6 Current employees , officers and consultants:

<u>Employee</u>	<u>Annual Compensation</u>	<u>Commission**</u>	<u>Severance</u>
Ajayebi, Tom	\$68,000		
Aronson, Dan	\$60,000		
Brodesser, Norm	\$39,000		
Cherney, Dia	\$35,000		
Daugherty, Daryl	\$12 per hour		
Devarrene, Claude	\$58,000		
Duhring, John	\$80,000		
Esanu, Marion	\$56,000		
Gamberg, Vivtoria	\$30,000		
Garrett, Kevan	\$45,000		
Gilliat, Bruce	\$60,000	Yes	
Graff, Peter	\$81,600		
Greer, Pat	\$80,000		
Gunawardena, Dilip	\$83,000		
Henderson, Edy	\$100,000		Yes
Innis, Cynthia	\$25,000		
Kahle, Brewster	\$105,000		
J.P. Masser	\$5,574 per month		
McCall, Mary	\$60,000		
Miller-Riley, Cyndy	\$48,000	Yes	
Morris, Harry	\$75,000		
Oliveau, Kevin	\$60,000		
Scharf, Nick	\$80,000		
Steinberg, Larry	\$48,000	Yes	
Sweat, John	\$55,000		
Syme-Hall, Meikle	\$57,000		
Toomey, Toomey	\$70,000		
Tuthill, Will	\$57,000		

\*\* Commissions range from 3-5% depending on sales levels.

## Consultants

Team Alliance (Patricia Klauer): \$6,000/ month plus bonus  
Margaret Saint-Pierre - not to exceed \$16,400 from January 1, 1995  
through May 31, 1995

Patricia Klauer (of Team Alliance) - agreement to provide contract consulting services for three months at a "retainer rate" of \$6,000 per month together with a bonus of up to \$9,000, based upon number on new employees recruited and working by June 30, 1995.

Margaret Saint-Pierre is providing consulting support for 39.50 projects from January 1, 1995 through May 31, 1995, at an hourly rate of \$39, with the total remuneration not to exceed \$16,400.

### Section 2.19: Books and Records.

#### 2.19.2 Internal accounting controls.

Internal controls do not include adequate separation of employee duties because of the limited number of employees. The Corporate Controller maintains accounting records, obtains approval for invoices to be paid, prepares checks, signs checks and reconciles the bank accounts.

### Section 2.20: Insurance.

WAIS has had workers compensation insurance since February, 1994 and general casualty insurance since May, 1994. WAIS does not have business interruption coverage.

WAIS obtained Workers compensation insurance on January 15, 1995 in California and on January 19, 1995 in Maryland.

WAIS's liability policies exclude professional liability coverage and patent trademark infringement coverage.

### Section 2.22: Federal and State Government Contracts

Following is a list of all material WAIS government contracts (including contracts with government prime contractors):

License Agreement with Boeing Computer Services (government prime contractor), dated August 25, 1993.

Government contract number 92\*N334305\*000 (John F. McCusker), dated September 28, 1992.

Contract with William D. McCarty, dated January 20, 1995.

Support and Maintenance Agreement w/ EG&G, dated July 26, 1993.  
 Server sale to EG&G, dated March 3, 1994.  
 Server sale to United States Government Printing Office, dated October 24, 1994.  
 Software License Agreement with The ITS Division of the Library of Congress, dated July 1, 1993.  
 Contract with Maryland Procurement Office, dated September 13, 1994.  
 Server sale to Mitre and Purchase Order, dated August 13, 1993.  
 Contract with NASA, dated February 10, 1995.  
 Server sale to Department of Commerce, dated June 10, 1994.  
 Contract with PCWARE Procurement Office, dated June 17, 1994.  
 Proposed contract with PRC, Inc., dated June 1, 1994.  
 Server sale to the Environmental Protection Agency, dated May 4, 1994.  
 Subcontract with RJO Enterprises, Inc., dated October 27, 1993.  
 Contract with Sandia National Laboratories, dated August 15, 1994.  
 Proposal to SBIR, dated June 26, 1993.  
 Proposal to David Szurek, dated September 13, 1994.

With regard to contract number 92\*N334305\*000 with John McCusker dated September 28, 1992, there is a potential claim by a government agency for a refund of \$20,000 paid to WAIS for services WAIS has not yet performed.

#### Section 2.24: Development Tools Used by WAIS:

##### a. Free or Public Domain Software

PERL  
 emacs  
 lemacs  
 gcc  
 g++  
 gdb  
 xxgdb  
 CVS  
 gnats  
 Web browsers (Netscape, Mosaic and others)

##### c. Licensed From Other Companies

Sparcworks C: licensed from Sun Microsystems  
 Purify: licensed from Pure  
 BSDI: licensed from Berkeley Systems  
 Various Unix operating systems (HP, IBM, Data General, DEC, SCO)